

CITY OF KNOXVILLE
KNOXVILLE, IOWA

MUNICIPAL WATERWORKS FUND

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

June 30, 2009

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CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND

WATERWORKS OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Merle Vickroy	Trustee - Chairman	April, 2015
Dwight Sommar	Trustee	April, 2011
Richard Randol	Trustee	April, 2013
Steve Inskeep	General Manager	Indefinite
Michael Lane	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
City of Knoxville Municipal Waterworks Fund
Knoxville, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Waterworks Fund, as of and for the year ended June 30, 2009, which collectively comprise the Waterwork's basic financial statements listed in the table of contents. These financial statements are the responsibility of Waterwork's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above presented fairly, in all material respects, the respective cash basis financial position of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Waterworks Fund as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2009 on our consideration of the Waterworks internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Waterworks has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

The budgetary comparison information on pages 15 through 16 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Knoxville, Iowa
September 28, 2009

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
As of and for the year ended June 30, 2009

	<u>Disbursements</u>	<u>Program Receipts Charges for Services</u>	<u>Net (Disbursements) Receipts</u>
Functions/Programs:			
Business-Type Activities:			
Water	\$ <u>1,842,189</u>	\$ <u>1,619,866</u>	\$ <u>(222,323)</u>
General receipts:			
Unrestricted investment earnings			16,820
Rents collected			21,063
Miscellaneous			<u>34,274</u>
Total general receipts			<u>72,157</u>
Change in cash basis net assets			(150,166)
Cash basis net assets beginning of year			<u>1,263,906</u>
Cash basis net assets end of year			\$ <u>1,113,740</u>
Cash basis net assets unrestricted			\$ <u>1,113,740</u>
See notes to financial statements.			

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUND
As of and for the year ended June 30, 2009

	Enterprise Fund Water Operating Fund
Operating receipts:	
Use of money and property:	
Rent	\$ 21,063
Charges for services:	
Sale of water	1,508,333
Sewer collection fee	45,000
Penalty fees	5,732
Taps	500
Customer service	1,885
Sales tax collected	58,416
	<u>1,619,866</u>
Miscellaneous:	
Utility credit	10,255
Refunds	1,289
Reimbursements	7,169
NSF check charges	6,096
Merchandise sales	3,190
Settlement	4,327
Disconnect notices and fees	1,948
	<u>34,274</u>
 Total operating receipts	 <u>1,675,203</u>

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUND
As of and for the year ended June 30, 2009

	Enterprise Fund <u>Water Operating Fund</u>
Operating disbursements:	
Business Type Activities:	
Administration:	
Salaries	\$ 74,300
Payroll taxes and IPERS	10,155
Employee insurance	75,688
Training and meetings	1,126
Analysis fees	1,811
Insurance	60,209
Audit fees	4,775
Publications	1,062
Maintenance contract	18,966
Memberships and fees	4,747
Engineering and consulting	28,991
Board annual fees	750
	<u>282,580</u>
Accounting and Collections:	
Salaries	104,190
Payroll taxes and IPERS	14,054
Office supplies	15,762
Utilities and telephone	1,885
Postage	16,961
Collection fees	4,615
Janitorial service	2,612
Maintenance	1,883
Sales tax remitted	58,876
Miscellaneous	7,989
	<u>228,827</u>

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
PROPRIETARY FUND
As of and for the year ended June 30, 2009

	Enterprise Fund <u>Water Operating Fund</u>
Operating disbursements (continued):	
Business Type Activities (continued):	
Plant and operation distribution:	
Salaries	\$ 324,551
Payroll taxes and IPERS	43,089
Electricity and gas	95,734
Chemicals	86,021
Gasoline and fuel	11,215
Maintenance and supplies	52,799
Sand, rock, and gravel	32,924
Distribution maintenance	<u>83,181</u>
	<u>729,514</u>
Other:	
Capital distribution projects	464,571
Capital project maintenance	38,835
Capital outlay	<u>97,862</u>
	<u>601,268</u>
Total operating disbursements	<u>1,842,189</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(166,986)</u>
Non-operating receipts:	
Interest on investments	<u>16,820</u>
Excess (deficiency) of receipts over (under) disbursements	(150,166)
Cash balance beginning of year	<u>1,263,906</u>
Cash balance end of year	\$ <u><u>1,113,740</u></u>
Cash basis fund balance unreserved	\$ <u><u>1,113,740</u></u>

See notes to financial statements.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
COMBINING STATEMENT OF CASH TRANSACTIONS AND CHANGES IN CASH BALANCES
AGENCY FUNDS
Year Ended June 30, 2009

	<u>Customer Deposits</u>	<u>Sanitary Sewer</u>	<u>Total</u>
Receipts:			
Charges for services:			
Sanitary sewer receipts	\$ -	\$ 1,950,614	\$ 1,950,614
Miscellaneous:			
Customer deposits	11,935	-	11,935
Reimbursements	<u>8,255</u>	<u>-</u>	<u>8,255</u>
	<u>20,190</u>	<u>-</u>	<u>20,190</u>
 Total receipts	 <u>20,190</u>	 <u>1,950,614</u>	 <u>1,970,804</u>
Disbursements:			
Agency Remittances:			
Remittances to City	-	1,950,614	1,950,614
Customer deposits reimbursed	<u>27,267</u>	<u>-</u>	<u>27,267</u>
Total disbursements	<u>27,267</u>	<u>1,950,614</u>	<u>1,977,881</u>
 Excess (deficiency) of receipts over (under) disbursements	 (7,077)	 -	 (7,077)
 Balance beginning of year	 <u>46,526</u>	 <u>-</u>	 <u>46,526</u>
 Balance end of year	 <u><u>\$ 39,449</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 39,449</u></u>

See notes to financial statements.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1. Summary of Significant Accounting Policies

The City of Knoxville Municipal Waterworks Fund is an independent department and a component unit of the City of Knoxville. The Waterworks operates under an appointed Board of Trustees. The Waterworks Department provides water service to the residents of Knoxville, Iowa, located in Marion County.

A. Reporting Entity

For financial reporting purposes, the Municipal Waterworks Funds of the City of Knoxville, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Waterworks has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Waterworks, are such that exclusion would cause the Waterworks financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Waterworks to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Waterworks. These statements do not include any other City of Knoxville funds or transactions.

B. Basis of Presentation

Government-wide Financial Statements – The statement of activities and net assets cash basis reports information on all of the nonfiduciary activities of the primary government, the Waterworks Fund, and any component units. For the most part, the effect of interfund activity has been removed from this financial statements. The statement demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identified with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program receipts are reported instead on general receipts.

Fund Financial Statements – Separate financial statements are provided for proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Waterworks reports the following fund type:

Proprietary Fund:

Enterprise Fund – The Enterprise Fund is utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 1. Summary of Significant Accounting Policies

B. Basis of Presentation (continued)

Additionally, the Waterworks reports the following fund type:

Fiduciary Funds:

Agency Funds are utilized to account for monies and properties received and held by the Waterworks in a trustee capacity as an agent for individuals, private organizations, certain jointly governed organizations, other governmental entities and/or other funds.

C. Basis of Accounting

The Municipal Waterworks Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Waterworks are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The Waterwork's deposits at June 30, 2009 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Waterwork's Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investments companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 2. Cash and Pooled Investments (continued)

The Waterwork's investments at June 30, 2009 are as follows:

Type	Amortized Cost
Iowa Public Agency Investment Trust	\$ 1,053,226

The Waterworks investments in the Iowa Public Agency Investment Trust are not subject to risk categorization and are valued at amortized cost pursuant of Rule 2a-7 under the Investment Company Act of 1940.

Note 3. Pension and Retirement Benefits

The Waterworks contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.10% of their annual salary and the Waterworks is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by State statute. The Waterwork's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$28,815, \$26,199, and \$25,236, respectively, equal to the required contributions for each year.

Note 4. Compensated Absences

Waterwork's employees accumulate vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as expenditures by the Waterworks until used or paid.

Waterwork's employees accumulate sick leave hours for subsequent use. Half the value of sick leave accrued at retirement will be applied to payment of health insurance premiums after retirement.

One employee retired during the year ended June 30, 2009. Seventy-five percent of the value of accrued sick leave at retirement for that employee was \$21,292. This makes two retired employees and their balance is being used to pay the monthly health insurance premiums of the retired employees until such time as the balance has been used. The premiums paid for the year ended June 30, 2009 were \$6,993. The balance at June 30, 2009 is \$28,883.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 4. Compensated Absences (continued)

The Waterwork's maximum liability for unrecognized accrued employee benefits has been computed based on rates of pay as of June 30, 2009 and is as follows:

<u>Type of Benefits</u>	<u>Amount</u>
Vacation	\$ 31,685
Sick Leave	113,260
Comp Time	<u>124</u>
Total	<u>\$ 145,069</u>

Note 5. Risk Management

The Waterworks is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Waterwork's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The Waterwork's contribution to the Pool for the year ended June 30, 2009 was \$47,421.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

Note 5. Risk Management (continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contribution. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Waterworks also carries insurance purchased from Iowa Municipalities Workers Compensation Association (IMWCA) for coverage associated with workers compensation in the amount of \$1,000,000. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from this risk have not exceeded insurance coverage in any of the past three fiscal years.

The Waterworks purchased from another insurer, coverage for employee blanket bond in the amount of \$25,000

Note 6. Sanitary Sewer Receipts

The Waterworks assesses and collects sanitary sewer charges for the City of Knoxville, Iowa. The receipts from collections from customers and remittances to the City of Knoxville are accounted for in the Agency – Sanitary Sewer Receipts Fund.

Note 7. Construction Commitment

During the year ended June 30, 2009 the Waterworks approved a contract totaling \$367,165 for major repairs to a water tower and sump drain work. Payments made during the year totaled \$173,823. The remaining retainage on the contract will be paid when the project is completed. The City of Knoxville will reimburse the Waterworks \$137,010 when the project is completed for the sump drain work.

The City of Knoxville has approved contracts that include projects that the Waterworks will reimburse the City for. These two projects, S. 5th Street and Robinson Street, are projects that could total \$365,197, which the Waterworks would be obligated to reimburse the city when completed.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – PROPRIETARY FUNDS
Required Supplementary Information
Year Ended June 30, 2009

	Actual	Reclassification and Adjustments	Net	Original Budgeted Amounts	Amended Budgeted Amounts	Budget to Net Variance
Receipts:						
Water:						
Use of money and property	\$ 37,883	\$ -	\$ 37,883	\$ 60,000	\$ 16,000	\$ 21,883
Charges for services	1,619,866	-	1,619,866	1,715,000	1,643,000	(23,134)
Miscellaneous	54,464	(20,190)	34,274	59,000	60,000	(25,726)
Total receipts	<u>1,712,213</u>	<u>(20,190)</u>	<u>1,692,023</u>	<u>1,834,000</u>	<u>1,719,000</u>	<u>(26,977)</u>
Disbursements:						
Business type activities:						
Water	<u>1,869,456</u>	<u>(27,267)</u>	<u>1,842,189</u>	<u>1,809,000</u>	<u>2,000,000</u>	<u>157,811</u>
Excess (deficiency) of receipts over (under) disbursements	(157,243)	7,077	(150,166)	25,000	(281,000)	\$ <u>130,834</u>
Balance beginning of year	<u>1,310,432</u>	<u>(46,526)</u>	<u>1,263,906</u>	<u>1,310,432</u>	<u>1,310,432</u>	
Balance end of year	\$ <u>1,153,189</u>	\$ <u>(39,449)</u>	\$ <u>1,113,740</u>	\$ <u>1,335,432</u>	\$ <u>1,029,432</u>	

See accompanying independent auditor's report.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgeting perspective differences resulting from not being able to present comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budgeted document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$191,000. The budget amendment is reflected in the final budgeted amounts.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
City of Knoxville Municipal Waterworks Fund
Knoxville, Iowa

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville Municipal Waterworks Fund as of and for the year ended June 30, 2009, which collectively comprise the Waterworks basic financial statements listed in the table of contents and have issued our report thereon dated September 28, 2009. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered City of Knoxville Waterworks internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not the purpose of expressing an opinion on the effectiveness of City of Knoxville Waterworks internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Knoxville Waterworks internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects City of Knoxville Waterworks ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of City of Knoxville Waterworks financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood of material misstatement of the financial statements will not be prevented or detected by City of Knoxville Waterworks internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Knoxville Municipal Waterworks Funds financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Waterwork's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Knoxville Waterworks responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Organization's responses, we did not audit City of Knoxville Waterworks responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Knoxville Waterworks and other parties to whom the City of Knoxville Waterworks may report. This report is not intended to be and should not be used by anyone other than the specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Knoxville Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Knoxville, Iowa
September 28, 2009

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. With only two individuals in the office, it is necessary on numerous occasions for the same individual to prepare water billings, receive cash, prepare the deposits, post collections to customer accounts, and prepare payroll and disbursements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we believe the Board should be aware of the situation and, as conditions change, review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We are aware of the situation, however with the current staffing we do not believe there is a practical way of improving the segregation of duties.

Conclusion - Response accepted.

CITY OF KNOXVILLE
MUNICIPAL WATERWORKS FUND
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- 1) Certified Budget - Disbursements during the year ended June 30, 2009 did not exceed the amount budgeted in the business type activities function.
- 2) Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 3) Travel Expense - No disbursements of Waterwork's money for travel expenses of spouses of Waterwork's officials or employees were noted.
- 4) Business Transactions – Business transactions between Waterworks and Waterwork's officials or employees are noted as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Merle Vickroy, Trustee Owner Vick's Repair	Furnace service call	\$ 45

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Trustee does not appear to represent a conflict of interest since total transaction with the individual was less than \$1,500 during the fiscal year.

- 5) Bond Coverage - Surety bond coverage of Waterwork's officials and employees is in accordance with statutory provisions. The Board should continue to review the amount of coverage annually to insure that the coverage remains adequate for current operations.
- 6) Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 7) Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provision of Chapter 12B and 12C of the Code of Iowa and the Waterwork's investment policy.

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